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WILL THE SPRING HOG PRICE RALLY BE ENOUGH?

Pork producers can't wait to put low hog prices behind them, but the market this year has been slow to respond. Help should be on the way, although the spring rally may not be as strong as many had been hoping for.

Producers are weary of losing money. In 2002, prices for 51 percent to 52 percent lean hogs averaged about \$35 for the year and estimated costs of production were \$38.60 per live hundredweight. Losses reached an estimated \$9.60 per hog. The largest losses came in the final quarter of the year, when they were over \$8 per live hundredweight, or \$21 per head. The situation is somewhat better in the first quarter of 2003 with prices expected to average near \$36 and losses trimmed to an estimated \$3.50 per hundredweight.

The disappointment for prices in the first two months of 2003 stems from a larger supply of hogs than had been expected based upon USDA inventory reports. Pork production in the first quarter of the year was expected to be only slightly higher than during the same period last year. However, in January and February, pork production has averaged 2.4 percent higher. Some moderation in slaughter rates can be expected in March, so that the number of hogs coming to market will be closer to even with year-previous levels. By spring, hog supplies could be down about 2 percent, based upon last fall's farrowing numbers.

The USDA's *Monthly Hogs and Pigs* report is also providing statistical support for slaughter supplies to be lower in the spring. The size of the pig crops in October, November, and December (representing spring slaughter) was down over 2 percent.

Hog prices should be on the verge of a spring rally that could take live hog prices from near the mid-\$30s at the start of March to the lower-\$40s by the end of May. If supplies drop as much as 2 percent for the spring quarter, as USDA reports suggest, prices could average near \$43. However, a more realistic objective right now is an average of \$40 for the second quarter.

Summer supplies will be drawn from sows farrowed this winter when producers said they would reduce numbers by 1 percent. If producers follow through, summer supplies will be only modestly lower and prices for the summer quarter would average a bit under \$40.

Data continue to point to a breeding herd that is dropping slowly. Farrowing intentions for the spring have been estimated at down 3 percent, and recent monthly reports have shown the number of females bred in November, December, and January to be down by 2.7 percent, helping to confirm this magnitude of reduction. If so, pork supplies could continue to drop modestly into the final quarter of 2003, with prices averaging in the mid-to-higher \$30s.

The best news for now is that losses are likely to nearly be over as the spring price rally sets in. However, prices cannot be expected to be high enough through the year to provide much more than a breakeven level on average.

Production costs may drop from near \$40 per hundredweight at the start of 2003 to closer to \$38 with lower corn prices, assuming near normal corn yields this fall. Hog prices, on the other hand, are expected to average about \$39 for the year. After the large losses experienced last year, it appears that a breakeven year in 2003 will not enable producers to recover from those losses.

So, will the spring price rally be enough? It will be enough to get back into a profitable environment, but a breakeven year in 2003 will be of limited value in helping producers climb out of the financial hole they find themselves in from losses experienced over the last 12 months.

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